

CORRECTED FISCAL NOTE

HB 3033 - SB 3035

March 13, 2006

SUMMARY OF BILL: Authorizes a municipality which creates a tourism development zone (TDZ) to levy an additional one-half percent (0.5%) tax on all privileges which are otherwise subject to sales and use tax occurring within such TDZ, provided that local option tax rates (LOTR) do not exceed 2.75%. Requires any incremental tax revenue derived from such increase to be earmarked for debt service on a qualified public use facility (QPUF). Authorizes any county having a metropolitan form of government with a population exceeding 500,000 (Nashville) to have more than one TDZ.

ESTIMATED FISCAL IMPACT:

On March 2, 2006, we issued a fiscal note indicating a one-time increase to state expenditures of \$44,000 and a potential net and recurring increase to local government revenues of \$3,570,000. In addition, we indicated that Chattanooga, Knoxville, Memphis, and Sevierville would be the four local governments that could benefit, each gaining a portion of the \$3,570,000. Based on additional information, the fiscal impact of this bill is:

(CORRECTED)

Increase State Expenditures - \$44,000 One-Time

Other Fiscal Impact - Currently, there are four TDZs (Chattanooga, Knoxville, Memphis, and Sevierville). Nashville is eligible for one TDZ, but has yet to elect TDZ status. Enactment of this bill would allow Nashville a second TDZ. Therefore, there are five local governments (six TDZs) that could benefit. To the extent LOTR were increased to 2.75% (maximum allowed under this bill) in all six TDZs, local government revenues would increase approximately \$5,985,000 (Chattanooga would gain \$1,260,000; Knoxville, \$525,000; Memphis, \$1,365,000; Nashville, \$2,625,000; and Sevierville, \$210,000) These revenues would be earmarked for debt service incurred on any QPUF constructed within each TDZ respectively. As a result, these funds could not be allocated for local government general purpose use.

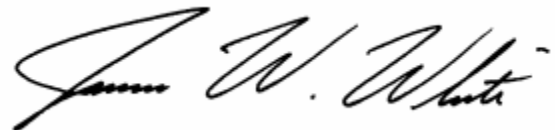
Assumptions:

- Currently, there are four TDZs within Tennessee: Chattanooga, Knoxville, Memphis, and Sevierville.
- Nashville is authorized to have one TDZ, but it has not elected TDZ status.

- This bill would allow Nashville a second TDZ.
- LOTR for Chattanooga, Knoxville, Memphis, and Nashville are currently 2.25%.
- LOTR for Sevierville is 2.50%.
- Based on FY05 collections, the Department of Revenue has indicated that by increasing the LOTR by 0.5% in Chattanooga, Knoxville, Memphis would generate approximately \$3,000,000 in incremental revenues (Chattanooga would gain \$1,200,000; Knoxville, \$500,000; and Memphis, \$1,300,000).
- Increasing the LOTR in Sevierville by 0.25% (maximum allowed under this bill) would generate approximately \$200,000 in incremental tax revenue.
- Assuming Nashville would generate the average of Chattanooga and Memphis by increasing its LOTR by 0.5%, it would generate approximately \$1,250,000 in incremental revenue for each TDZ.
- Given Nashville would be eligible for two TDZs, it could generate approximately \$2,500,000 ($\$1,250,000 \times 2 \text{ TDZs} = \$2,500,000$).
- The net increase to local government revenues, based on FY05 collections, is estimated to be \$5,700,000.
- Sales tax collections grow 5% from FY05 to FY06.
- The increase to local government revenues (adjusted for growth) is estimated to be \$5,985,000 ($\$5,700,000 \times 105\% = \$5,985,000$) for FY06.
- To the extent all six eligible TDZs increase their LOTR by 0.5% (0.25% for Sevierville); Chattanooga would gain \$1,260,000; Knoxville, \$525,000; Memphis, \$1,365,000; Nashville, \$2,625,000; and Sevierville, \$210,000.
- Any increase to local government revenues would be earmarked for debt service incurred on any QPUF located within each TDZ respectively. As a result, these funds could not be allocated for local government general purpose use.
- Software modifications required to implement this legislation is estimated as a one-time state expenditure of \$44,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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(CORRECTED)**